
Performance-Based Budgeting

The budget is a key financial and policy document. Performance-based budgeting (PBB) allows the budget to also be used as a management tool. PBB is a systematic budgeting process that links revenues to activities and programs (as opposed to organization units). This allows public officials and program managers to better monitor whether a particular program within a department is meeting anticipated goals from a performance and fiscal perspective.

The District government has made tremendous strides in financial management and significant improvement in service delivery over the past several years. Additionally, several internal management reform efforts are underway such as the Management Supervisory Service and the Administrative Services Modernization Project. However, the immediate need to invest in critical operations when the Mayor first took office precluded the integration with these ongoing efforts.

It is anticipated that several of these management reform efforts will result in not only improved service delivery, but also greater efficiency. For example, the Administrative Services Modernization Project will result in process efficiencies - resulting in a decrease in fiscal resources directed to these functions. These efficiencies will be reinvested to provide a greater level of service, additional programs or reduce taxes.

STABILIZING PROGRAMS:

Before

- Insufficient fleet of trash trucks
- Back-log of 1,361 lab tests for the Chief Medical Examiner
- 1,000s of tax returns in "storage"
- Hundreds of vacant police officer positions
- Major programs in court-ordered receivership

After

- DPW fleet availability - 98 percent
- Lab test back-log eliminated
- Tax returns processed faster than the Commonwealth of Virginia and the IRS
- Increased police presence, decreases in crime
- No city service under court-ordered receivership

REFORMING MANAGEMENT:

- Management Supervisory Service (MSS) - developing stronger managers and supervisors
- Citywide Call Center - Improving customer service and responsiveness
- Risk Management Initiatives - Establishing agency-based risk mitigation programs
- OCFO Consolidation - streamlining financial management operations within agencies
- Leveraging Information Technology - Implementing E-Government solutions (e.g., business licenses and electronic tax filing)
- Medicaid Reform Initiative - Improving recovery of eligible Medicaid reimbursements
- Administrative Services Modernization Project - integrating procurement, personnel, facility management, and other administrative processes

The Mayor's success in stabilizing basic program delivery and reforming management practices provides the essential foundation for more efficient service delivery...services are being delivered and managers are managing.

PBB is just one vehicle to begin efforts to examine efficiency of the District's programs. Another effort is the District's participation in the International City/County Management Association's Center for Performance Measurement. The center collects standardized program performance and cost information for hundreds of jurisdictions, including highly regarded entities, such as the City of Phoenix and Fairfax County, Virginia.

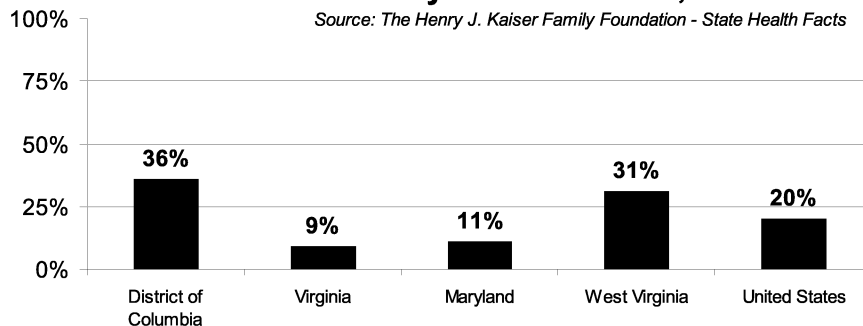
In this first phase of the District's transition to PBB, several program benchmarks were developed. While these benchmarks focused on outputs, performance and service demand parameters (Exhibit 2-1), tracking costs by the program

Sample Benchmarks

Exhibit 2-1

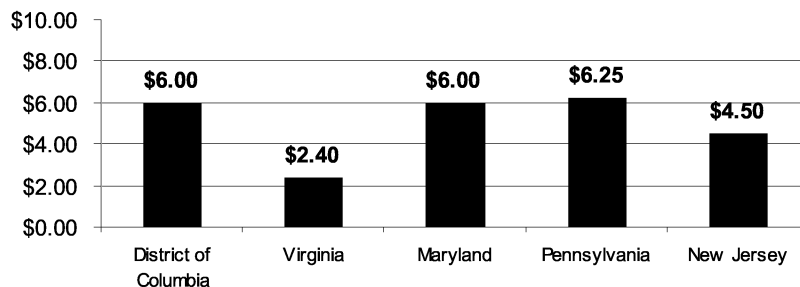
Percent of Children with Medicaid as Primary Health Insurer, 1999-2000

Source: The Henry J. Kaiser Family Foundation - State Health Facts



Driver License Renewal Fees, 2001

Source: District of Columbia Department of Motor Vehicles



structures reflected in the PBB agency strategic business plan will allow the District to perform cost and efficiency comparisons. With a constrained tax base and projected flat revenue growth, it is imperative that the District not only provide quality services, but efficient services.

The District's implementation of PBB includes a concerted effort to align agency goals and key performance measures with the citywide strategic plan. For example, rather than reporting only the number of vehicles ticketed or streets cleaned, the Department of Public Works has a higher agency strategic goal of delivering 94 percent of its services in a timely manner. That goal, however, does not exist in a vacuum. It is tied to the broader citywide priority area of "making government work" and its goal of delivering "all city services in a thorough, timely and efficient manner."

Based on the positive response to the presentation of 17 programs in a sample PBB format in the FY 2002 budget, the FY 2003 Proposed Budget and Financial Plan includes the first phase of the District's efforts to fully implement PBB. As detailed in the "Performance and Financial Accountability Act of 2001" the FY 2003 budget presentation was to include performance-based budgets for the following agencies:

- Metropolitan Police Department
- Fire and Emergency Medical Services Department
- Department of Human Services
- Department of Motor Vehicles
- Department of Public Works
- D.C. Public Schools
- Department of Health

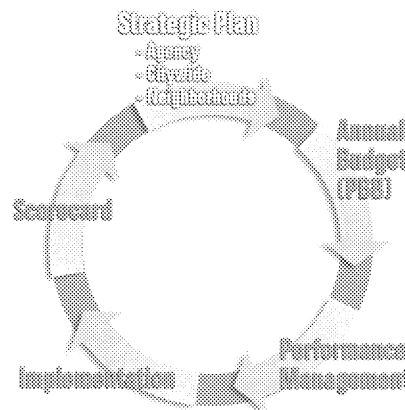
Due to internal and external factors impacting the D.C. Public Schools and the Department of Health during calendar year 2001, these agencies will defer their implementation until the FY 2004 budget process. In their place, the District Department of Transportation and the Office of the Chief Financial Officer are presenting their FY 2003 proposed budget in a PBB format within the FY 2003 Proposed Budget and Financial Plan.

Integrating PBB into the District's Strategic Management Cycle

The District's Strategic Management Cycle represents the executive branch management of agencies and programs to meet the goals and priorities determined by the Mayor and District Council.

To fully leverage the implementation of PBB within the Strategic Management Cycle, PBB is being implemented with alignment to the District's strategic planning processes, both citywide and agency. In conjunction with the Office

Strategic Management Cycle

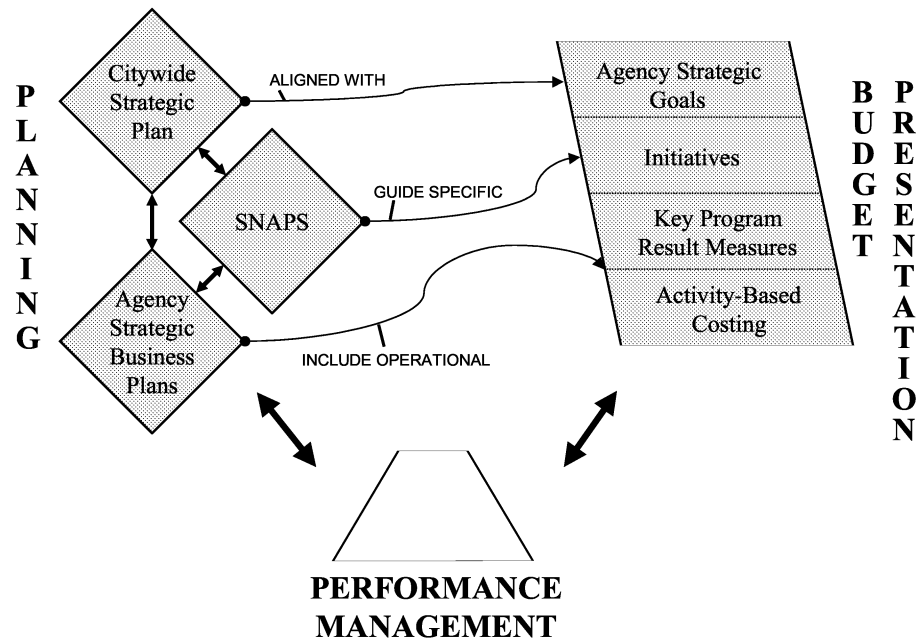


of Neighborhood Action and the Office of the City Administrator, the agencies implementing PBB in FY 2003 developed strategic business plans that are linked to the citywide strategic plan and strategic neighborhood action plans (SNAPS). Exhibit 2-2 demonstrates how the planning processes are integrated and linked to the budget presentation. Exhibit 2-3, shows how the results of this integration are reflected in the documents supporting the FY 2003 budget process.

In addition to integrating with the District planning process, PBB assists in aligning the District's performance management activities. These activities include agency scorecards, director performance contracts, and performance evaluations associated with the management supervisory service (MSS) and the performance management program (PMP). The linchpin for this alignment is the agency's strategic business plan. The business plan includes key elements that translate directly to the performance matri-

Planning Integration

Exhibit 2-2



Aligning the citywide, budget, and agency plans

Exhibit 2-3



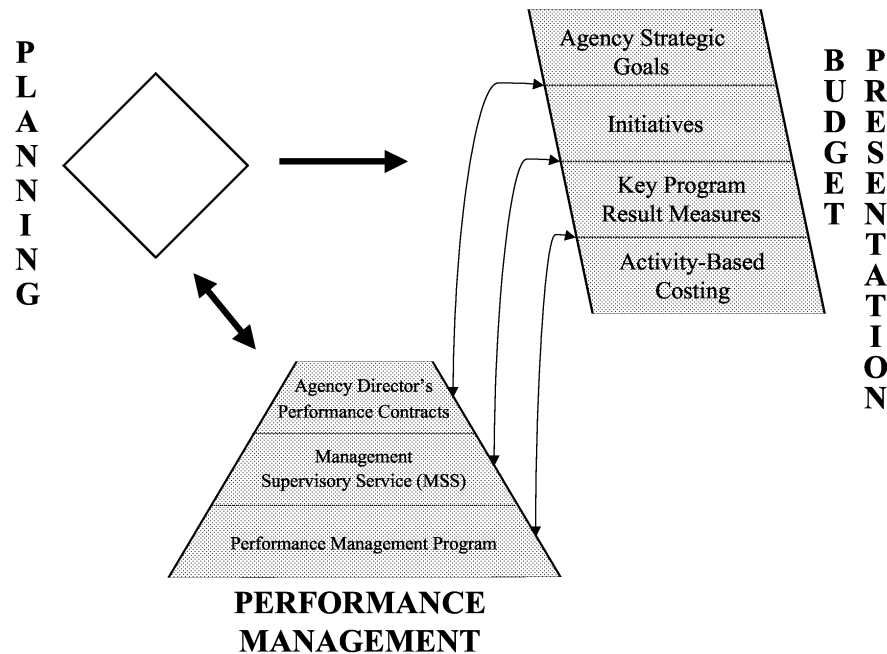
ces reflected in the FY2003 proposed budget, the citywide strategic plan and director performance contracts (Exhibit 4). For example, specific performance targets for emergency medical services response time are reflected in the citywide strategic plan within the "Making Government Work" priority, the Fire Chief's performance contract and the Fire and Emergency Medical Services Department chapter in this budget book.

For the agencies moving to PBB in FY 2003, strategic business plans were developed during the summer and fall of 2001. Elements of these plans are presented in the agency budget chapter narrative including the mission statement, strategic result goals and key program results.

Strategic result goals articulate the priority areas for the agency to make program decisions during the next two to three years. The agency

Performance Integration

Exhibit 2-4



will implement various initiatives in the current year to begin to make progress toward the strategic result goals.

Key program results represent the performance measures that an agency uses to demonstrate the annual success of a program. In many cases, meeting key program result performance targets will demonstrate progress towards a specific agency strategic result goal. In short, key program results articulate what will be accomplished with the proposed funding level.

In addition to key program result measures, each activity within a program has performance measures associated with output, demand, and efficiency.

These performance measures were developed for the program/activity structure developed in the business planning process. The program/activity structure reflected in the business plan is the result of a concerted effort to align all the agency's resources appropriately to best address the strategic goals of the agency. In the past, agency resources were typically aligned with organization units that did not represent discreet programs. While prior

year data is available for performance measures in non-PBB agencies, prior year performance data is unavailable for PBB agencies since they created new program structures and performance measures for performance-based budgeting. These measures are depicted in the agency business plan for each activity. Additionally, the PBB implementation will be integrated into the Districts Performance management Program (PMP). The PMP represents a significant step forward in the employee and supervisor evaluation process. For additional information about the PMP please contact the Office of Personnel (<http://dcopedm.dcop.dc.gov/dcpmp>).

See the *How to Read the Budget* section for a description of all the elements included in the agency budget chapter.

PBB Impact on Budget Development

Moving to PBB will blur the lines that clearly mark the beginning (distribution of the budget manual) and ending of the budget development period (Council adoption of the budget). PBB

will shift the focus from budgeting for a specific budget development period to a continuous process of planning, budgeting and evaluating programs. By integrating planning activities in advance of the budget process and program performance after budget adoption, the planning, financial management, and performance evaluation functions become an integral part of program management.

The technical elements of budgeting (e.g., estimating revenues, projecting personnel costs, accounting for inflation, etc.) do not change within a PBB environment, however in the coming years, as the PBB implementation matures with performance data collection and reporting processes, the budget development process will shift its focus from technical budgeting to program costs and outcomes.

For additional information on the PBB, contact the Office of Budget and Planning at (202) 727- 6234.